

AUDIT REPORT

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA

DECEMBER 31, 2022



April Adams CPA PLLC

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NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
DECEMBER 31, 2022

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NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
DECEMBER 31, 2022

BOARD OF DIRECTORS

<u>NAME</u>	<u>POSITION</u>	<u>TERM EXPIRATION</u>
Wyatt Lively	Chairman	2023
Melody Wood	Vice Chairman	2024
Judy Shoemaker	Board Member	2025
Mike Brown	Board Member	2024
Leo Dick	Board Member	2025

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Nowata County Rural Water District #3
Nowata County, Oklahoma

Report on the Audit of the Financial Statements

Opinion

I have audited the modified cash-basis financial statements of Nowata County Rural Water District #3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, as listed in the table of contents.

In my opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the Nowata County Rural Water District #3 as of December 31, 2022, and the respective changes in modified cash-basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.

Basis for Opinion

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Nowata County Rural Water District #3 and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

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Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, I

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nowata County Rural Water District #3's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by

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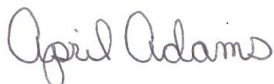
management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Nowata County Rural Water District #3's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 16, 2023, on my consideration of the Nowata County Rural Water District #3's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Nowata County Rural Water District #3's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nowata County Rural Water District #3's internal control over financial reporting and compliance.



April Adams CPA PLLC
Ponca City, Oklahoma

May 16, 2023

**NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2022**

	<u>2022</u>
<u>ASSETS</u>	
<u>CURRENT ASSETS:</u>	
Cash - Revenue Fund	\$ 172,089
Cash - Operation and Maintenance	<u>2,973</u>
Total Current Assets	<u>175,062</u>
<u>CAPITAL ASSETS:</u>	
Land	750
Other capital assets, net of accumulated depreciation	<u>172,850</u>
Net Capital Assets	<u>173,600</u>
 TOTAL ASSETS	 <u><u>\$ 348,662</u></u>
 <u>LIABILITIES & NET POSITION</u>	
<u>LIABILITIES:</u>	
<u>CURRENT LIABILITIES:</u>	
Current Portion of Long-Term Debt	\$ -
Total Current Liabilities	<u>-</u>
 TOTAL LONG-TERM LIABILITIES	 <u>-</u>
 TOTAL LIABILITIES	 <u>-</u>
<u>NET POSITION:</u>	
Net investment in capital assets	173,600
Restricted for debt service	-
Unrestricted	<u>175,062</u>
TOTAL NET POSITION	<u>348,662</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 348,662</u></u>

The accompanying notes are an integral part of the basic financial statements

EXHIBIT B

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2022

	<u>2022</u>
<u>OPERATING REVENUES:</u>	
Water Sales	\$ 83,103
Meter Sales	-
Other Operating Income	-
TOTAL OPERATING REVENUES	<u>83,103</u>
<u>OPERATING EXPENSES:</u>	
Water Purchased	30,241
Office Expense	3,036
Bookkeeping and Management	14,169
Professional Fees	1,473
Bank Fee & Bad Debt	60
Repairs & Maintenance	2,595
Insurance	1,992
Water Testing	1,850
Utilities	1,301
Depreciation	8,755
Miscellaneous	-
Total Operating Expenses	<u>65,471</u>
NET OPERATING INCOME (LOSS)	<u>17,632</u>
<u>OTHER REVENUES (EXPENSES):</u>	
Interest Revenue	257
Interest Expense	-
Total Other Revenues (Expenses)	<u>257</u>
NET INCOME (LOSS) BEFORE CONTRIBUTIONS	17,889
CAPITAL CONTRIBUTIONS	<u>-</u>
CHANGE IN NET POSITION	17,889
TOTAL NET POSITION, Beginning of Year	330,773
TOTAL NET POSITION, Prior Year Adjustment	-
TOTAL NET POSITION, End of Year	<u><u>\$ 348,662</u></u>

The accompanying notes are an integral part of the basic financial statements

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2022

	<u>2022</u>
<u>Cash Flows from Operating Activities:</u>	
Cash Receipts from Customers	\$ 83,103
Payments to Suppliers & Laborers for Goods & Services	<u>(56,716)</u>
Net Cash Provided (Used) by Operating Activities	<u>26,387</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Additions to Capital Assets	-
Gain on Conversion/Sale of Capital Assets	-
Principal paid on Long-Term Debt	-
Interest paid on Debt	<u>-</u>
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>-</u>
<u>Cash Flows from Investing Activities:</u>	
Interest Income	<u>257</u>
Net Cash Provided (Used) by Investing Activities	<u>257</u>
Net Increase (Decrease) in Cash and Cash Equivalents	26,644
Cash & Cash Equivalents, Beginning of Year	148,418
Cash & Cash Equivalents, Prior Year Adjustment	<u>-</u>
Cash & Cash Equivalents, End of Year	<u><u>\$ 175,062</u></u>
<u>Reconciliation of operating income (loss) to net cash provided</u>	
<u>operating activities:</u>	
Operating Income (Loss)	\$ 17,632
Adjustments to reconcile operating income (loss) to net cash	
provided (used) by operating activities	
Depreciation	<u>8,755</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 26,387</u></u>

The accompanying notes are an integral part of the basic financial statements

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES & OPERATIONS

As discussed further in Note 1.C, these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Organization & Reporting Entity

Rural Water District No. 3, Nowata County, Oklahoma, a corporation, was organized to sell water to its members. It is not a component unit, as defined by Governmental Accounting Standards Board Statement No. 14.

B. Basis of Presentation

The accounts of the District are organized on the basis of proprietary fund type, specifically an enterprise fund. The activities of this fund are accounted for with a separate set of self-balancing accounts that comprise the District's assets, liabilities, net assets, revenues and expenses. Enterprise Funds account for activities (1) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (2) that are required by laws or regulations that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (3) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

C. Measurement Focus and Basis of Accounting

Measurement Focus

The District utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

focus are the determination of operating income, changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the District utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for proprietary fund types would use the accrual basis of accounting.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

D. Financial Position

Cash & Cash Equivalents

For the purpose of these financial statements, the District considers cash and cash equivalents to be currency on hand and demand deposits with banks. There were no non-monetary transactions.

Inventory

The District does not maintain inventory records of parts or supplies, but charges these purchases to maintenance or supplies as they are received.

Capital Assets

Asset acquisitions are recorded and depreciated at historical cost. Depreciation on fixed assets is calculated using the straight-line method of depreciation with useful lives averaging 50 years for major asset purchases. Other asset purchases are depreciated over a period of 5 years. The District has set the capitalization amount at \$500.00 for new assets purchased.

Long-Term Debt

Long-term debt is reported at face value, net of applicable discounts and deferred loss on refunding. Costs related to the issuance of debt are deferred and amortized over the lives of various debt issues.

Equity Classification

Equity is classified as net position and displayed in three components:

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted - Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the District's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

Revenues, expenditures & expenses

Operating revenues and expenses for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all revenues and expenses not related to capital and related financing, noncapital financing, or investing activities.

Income Taxes

The District is organized as a not-for-profit entity and is exempt from paying Federal and State Income Taxes.

Compensated Absences

The District does not have salaried employees.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis of accounting used by the District requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 2 - CUSTODIAL CREDIT RISK RELATED TO DEPOSITS

Custodial Credit Risk

At December 31, 2022, the District held deposits of approximately \$175,062 at financial institutions. The District's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the District or by its agent in the District's name.

Investment Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Investment Credit Risk

The District has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

NOTE 3 - RESTRICTED ASSETS

As of December 31, 2022, the District has no long-term debt and no restricted assets.

NOTE 4 - CAPITAL ASSETS

Capital asset activity, for the fiscal year ended December 31, 2022, was as follows:

	12/31/21 Balance	Additions	Deductions	12/31/22 Balance
Capital assets not being depreciated:				
Land	\$ 750	\$ -	\$ -	\$ 750
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	750	-	-	750
Other capital assets:				
Water System	186,590	-	-	186,590
Building and Land Improvements	83,466	-	-	83,466
System Improvements	75,447	-	-	75,447
Office Equipment	5,760	-	-	5,760
Total other capital assets at historical cost	351,263	-	-	351,263
Less accumulated depreciation for:				
Water System	(123,376)	(2,265)	-	(125,641)
Building and Land Improvements	(24,600)	(4,723)	-	(29,323)
System Improvements	(16,438)	(1,509)	-	(17,947)
Office Equipment	(5,243)	(258)	-	(5,501)
Total accumulated depreciation	(169,657)	(8,755)	-	(178,412)
Other capital assets, net	181,606	(8,755)	-	172,850
Total Capital Assets, net	\$ 182,356	\$ (8,755)	\$ -	\$ 173,600

NOTE 5 - LONG-TERM DEBT

The District has no long-term debt.

NOTE 6 - CONTINGENCIES

Litigation

According to management there were no known contingent liabilities at December 31, 2022, which would have a material effect on the financial statements.

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022

Grant Program Involvement

In the normal course of operations, the District participates in various federal or state/loan programs from year to year. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. Any liability of reimbursement that may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

NOTE 7 - WATER PURCHASES

The District purchases its water from the City of Nowata.

NOTE 8 - SUBSEQUENT EVENTS

The District did not have any subsequent events through May 16, 2023, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending December 31, 2022.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Nowata County Rural Water District #3
Nowata County, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis financial statements of the Nowata County Rural Water District #3, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, and have issued my report thereon dated May 16, 2023.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Nowata County Rural Water District #3's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Nowata County Rural Water District #3's internal control. Accordingly, I do not express an opinion on the effectiveness of Nowata County Rural Water District #3's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control

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that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control described in the accompanying Schedule of Findings as Item 22-01 that I consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Nowata County Rural Water District #3's financial statements are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect the financial statements. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Nowata County Rural Water District #3's Response to Findings

Nowata County Rural Water District #3's response to the findings identified in my audit is described in the accompanying Schedule of Findings. Nowata County Rural Water District #3's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's

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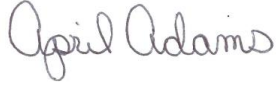
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internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



April Adams CPA PLLC

Ponca City, Oklahoma

May 16, 2023

NOWATA COUNTY RURAL WATER DISTRICT #3
NOWATA COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS
DECEMBER 31, 2022

Item 22-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction.

Condition: Due to the size of the District's major areas of internal control, that would be prevalent in a larger District, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board is actively involved in the operations of the organization.